S&P Global Ratings

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Research Update:

IPB Insurance CLG Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Based on the new criteria, IBP Insurance CLG's (IPB) capital adequacy remains robust above the 99.99% confidence level.
- Therefore, we affirmed our financial strength and issuer credit ratings on IPB at 'A-'.
- The outlook is stable because we expect IPB to maintain both its capital adequacy above the 99.99% confidence level for the next two years, and its market leading position in the Irish local authority liability insurance business.

Rating Action

On June 19, 2024, S&P Global Ratings affirmed its 'A-' long-term issuer credit and financial strength ratings on Ireland-domiciled IPB. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- The implementation of our revised criteria of analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions") does not lead to any rating changes for IPB because the company's capital adequacy remains above the 99.99% confidence level.
- The improvement in capital adequacy, with an increase in capital buffer at the highest confidence level, primarily reflects growth of total adjusted capital.
- We have captured the benefits of risk diversification more explicitly in our analysis under the new model, which supports capital adequacy. In contrast, we have recalibrated our capital

charges to higher confidence levels.

Credit Highlights

Overview

Key strengths	Key risks
Capital adequacy above the 99.99% confidence level under our risk-based capital model.	Geopolitical and economic risks, capital market volatility, and inflation could still lead to some volatility in earnings.
High expertise and dominant market position in liability insurance for the local public authority.	Somewhat concentrated in Ireland's local public authority segment.
A mutual player with high client retention rates and a close and direct relationship with its members.	

Rationale

Capital adequacy above the 99.99% confidence level is a key strength for IPB. The company's capitalization under our risk-based capital model and Solvency II is stable, and we expect the company will keep its capitalization at the current level and maintain Solvency II ratios within its targets over the next two-to-three years. However, the limited absolute capital base makes IPB more sensitive to shocks than companies with larger balance sheets.

IPB has built a dominant position in its niche segment of third-party liability insurance for local public authorities in Ireland. In 2023, about 76% of its earned premiums was third-party liability. It has a strong track record of member risk management, comprehensive claims initiatives, and customer service, improving the claims experience of its members through risk mitigation and hazard elimination. Furthermore, IPB has built a strong competitive advantage in its core market by underwriting most of its liability book on a claims-made basis. In our view, this feature has partly deterred competitors from entering IPB's niche market.

2023 proved to be another year of strong underwriting performance for IPB with the combined (loss and expense) ratio of 90.5%. Although comparing less favorably to the exceptional combined ratio of 73.3% in 2022, it is well below the company's strategic target of 95%. We expect combined ratios to stay below 95%.

IPB's liquidity remains exceptional, with a highly liquid asset portfolio and strong operating cash flow generation.

Outlook

The stable outlook reflects our view that IPB's capital buffer will support the rating over the next two years. We expect IPB will maintain a disciplined approach to underwriting during this period, with high client retention.

Downside scenario

Although unlikely, we might lower the ratings over the next two years if IPB's capitalization materially weakens, such that most of its capital surplus diminishes, as measured by our capital model. This could follow a prolonged period of underpricing in an inflationary environment, higher-than-expected claims, or a series of extraordinary losses in IPB's investment portfolio. We could also consider lowering the ratings if, although unlikely, the company loses its dominant position in the local public authorities segment, which could result in a significant loss of members.

Upside scenario

We view a positive rating action as unlikely during the next two years. We expect IPB's concentration on liability business for local public authorities, and the challenging claims environment in the Irish non-life insurance industry, will continue to weigh on the ratings.

Ratings Score Snapshot

Financial strength rating	A-/Stable/--
Anchor*	a-
Business risk	Satisfactory
IICRA	Intermediate
Competitive position	Satisfactory
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
IPB Insurance CLG	
Issuer Credit Rating	
Local Currency	A-/Stable/--
Financial Strength Rating	
Local Currency	A-/Stable/--